

2002 HANDBOOK OF BUSINESS STRATEGY

*A Comprehensive Resource Guide
to Strategic Management: From
Long-Range Planning to
Tactical Business Development*

FROM THE PUBLISHERS OF

JOURNAL OF **BUSINESS
STRATEGY**

EC MEDIA GROUP

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PREFACE

A very short time ago, dot-coms were everybody's darlings. As the NASDAQ soared into the stratosphere, the digital cognoscente opined that the Old Economy companies "just didn't get it," and the future belonged to the kids in garages. Those kids were starting up way cool businesses in such areas as business-to-business marketplaces, grocery delivery, and online toy sales. Venture capitalists, convinced that the New Economy would be the source of all future riches, lined up to fund almost anyone staking a claim in the uncharted territory of the Internet. They based their investment decisions not on garden-variety business plans, because these businesses were subject to different rules than were the Old Economy companies, but on options theory. The accepted wisdom was that first movers onto the Web would dominate their markets, and followers would have no chance. Therefore, the firstest with the mostest (which meant the mostest funding) were sure bets.

Well, a whole lot of those dot-coms are now dot-gone. All the evidence suggests that a strategy that relies solely on being the first mover is muttonheaded. It turns out that the venture capitalists would have been better off putting their money on Old Economy firms. Maybe they got to the Web party late, but they brought great hostess gifts: established brand names and solid supply chains and distribution systems.

The simple fact is that a good strategy for actually making a profit is essential. No matter where a firm does business—in an factory, industrial park, mall, or online—the rules are the same. So think of the *Handbook of Business Strategy* as a rulebook for both the Old and New Economy.

But it's important to remember that, despite the dot-com debacle, technology matters to *all* firms. For that reason, we start this volume, as we did last year's book, with coverage of e-business. Whether in the Old or New Economy, every firm needs to gain every advantage it can from technology. In fact, for some a technological edge may make the difference between winning and losing.

But technology is not enough. Effective implementation of well-considered strategic plans is essential. The second section of the book offers advice on how to create plans that are effective in both the real and the virtual worlds.

In the third section, we cover an essential topic in this era of flux—change management. Success in this environment requires that you and all your employees embrace change, as the authors of these chapters explain.

The fourth section is a perennial topic for the *Handbook*: measurement and metrics. As they say in the Army, "You can't expect what you don't inspect"; which in business parlance is, "You can't manage what you don't measure." But there many measures from which to choose, depending on the outcome you desire. The authors of these chapters explain how to make the right choices.

There are many fewer choices in global strategic planning. As the world gets smaller and smaller, businesses of all sizes and types must to begin to think globally, which is why the fifth section, on global strategic planning, is especially vital.

Equally vital is leadership, the subject of the penultimate section. It goes without saying that the best-laid strategic plans will fail unless strong leaders make sure they're carried out.

Last, but by no means least, we cover marketing and brand management. The channels through which you can reach customers are growing, and the nature of the relationships between customers and suppliers is changing. As a result, branding and customer relationship management take on new importance in this digital age.

The *Handbook of Business Strategy* exists because thoughtful, articulate people are willing to share their ideas and expertise with others. We thank all of the chapter authors for their generosity. We also thank Heather Ogilvie for applying her prodigious intellect to the task of editing the chapters, and Kevin Parise for his impressive production talent and unflagging good cheer.

Pamela Goett
Editor & Publisher

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Managing HR Issues During a Merger

K. SRINIVAS RAO

Some human resources issues are more important than others, depending on the type of merger taking place.

Mergers and acquisitions are facts of life in almost all industries. But how many high-profile mergers succeed in the long term? What factors contribute to their success or failure? The impetus for most mergers is the desire to improve financials or market share. With one of those goals in mind, merging companies rarely give human resources issues the attention they deserve during the merger process. This neglect often leads to the failure of the merger. Furthermore, paying attention to the human resources issues only *after* the merger has taken place can be too late in the process.

The HR issues that often crop up during a merger fall into three categories, or “3Ps”:

Psychological Issues. Psychological issues relate to stress due to insecurity and anxiety. One person's psychological issues can filter down into procedure and practice issues in a very short time.

Procedure Issues. HR policies and procedures can become a point of contention because each organization has its own set of rules and regulations. Deciding which organization's rules to adopt can be difficult, especially in areas such as vacation time, business travel, medical benefits, and compensation structuring.

Practice Issues. Every organization has its own way of doing things—this is the “work culture” of the organization. Changing this culture or adopting a new way of doing things is one of the most sensitive HR issues that come up during a merger.

To understand these issues in more detail we need to have a fair understanding the kinds of mergers that take place. (“Merger” here means all kinds of acquisitions, strategic alliances, joint ventures, takeovers, etc.) Basically, there are four domains into which mergers fall:

1. *Align domain mergers* are horizontal mergers, where one

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company merges or acquires other companies, usually competitors, in the same industry. An example is a telecom company that buys another telecom company to consolidate its position in the market.

2. *Associate domain mergers* are vertical mergers, where one company merges or acquires other companies in the same industry, but at a different point in the supply chain. In other words, a company would expand its capabilities by acquiring a supplier or customer, thus enabling a forward or backward integration. For example, a telecom service provider might buy a telephone manufacturer. These mergers enhance the value chain of business processes—the company moves from the end product to the raw material or vice versa.

3. *Alien domain mergers* are diagonal mergers, where a company merges or acquires other companies in other domains and industries—for example, a telecom company buying an aircraft manufacturing company. These mergers occur when a company wants to diversify its existing range of products or services.

4. *Affiliated domain mergers* are also called related mergers, where a company merges or acquires other companies in a related domain—for example, a telecom company buying a software company in order to converge capabilities, thus creating products with added value.

To manage the “3P” issues with regard to each of these types of mergers, managers in India use the “PANKHURI” process. PANKHURI means

“petal,” which signifies softness and delicacy—the essence of HR issues in a merger.

PANKHURI is a process that addresses all the major issues that arise during the merger process. It helps the merger managers understand the importance of a particular issue during a merger by rating the issue on the following scale:

Not Critical (!) : The issue is not a burning one in the short term.

Critical (!!): The issue is sensitive either in the short term or long term, and managers should take care to handle it on time.

Highly Critical (!!!): The issue is highly critical in both the short and long term, and managers must address it urgently.

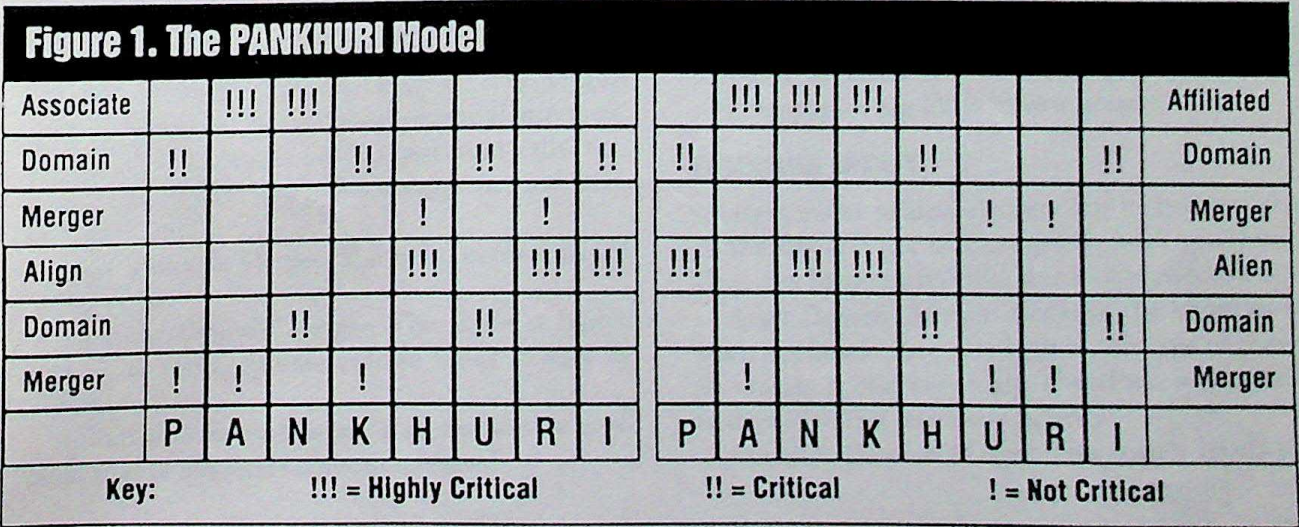
During the merger the affected HR issues fall into the following eight groups, abbreviated as PANKHURI (see Figure 1).

P: POLICY AND PROCEDURES MAPPING

People tend to forget about HR policies and procedures until an issue comes up—or until someone tries to change the company handbook. Revising the HR policies and procedures can be an urgent task, depending on the type of merger:

Align Domain Merger. Because the industry is the same, the policies and procedures are similar in both companies. Therefore, this issue is not so critical and relatively easy to handle.

Associate Domain Merger. The industries are different, so changes will be necessary. The issue is therefore critical, and not so easy to handle.



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Affiliated Domain Merger. At the macro level the industry is the same, so the chances of the companies having similar policies and procedures are high. The issue can vary from critical to highly critical.

Alien Domain Merger. Because the industries vary, the policies and procedures will vary. Hence, the issue becomes highly critical and sensitive.

A: ALIGNING ORGANIZATIONAL STRUCTURE

The biggest issue that comes with aligning organizational structure is that of reporting patterns—who will report to whom and why? The second issue is that of titles, and the third is that of levels/grades that form a structure. Every organization assigns a different meaning to a title based on its turnover, product type, and the geographical markets in which it operates.

Align Domain Merger. Because the companies are in same industry, aligning structure is comparatively easy.

Associate Domain Merger. The issue of aligning structure is very critical, because although the nature of the industry is the same, titles and roles will vary.

Affiliated Domain Merger. The situation is very similar to the associate domain merger.

Alien Domain Merger. Here the situation is not that grim. The core competencies of each firm are different, so the structures would not require much integration, except, perhaps, at the very top.

N: NEUTRALIZING CROSS-CULTURES

Neutralizing culture is an attempt to build bridges between two different work cultures. Work cultures can vary according to management styles, industry, and geographical locations. The biggest problems occur during transnational mergers, where work cultures reflect national cultures, influenced by differing politics, religions, and artistic expression.

Align Domain Merger. The basic culture would be the same.

Associate Domain Merger. This issue is highly critical, as the corporate culture tends to vary by domain.

Affiliated Domain Merger. This situation is similar to that of associate domain mergers.

HANDBOOK OF BUSINESS STRATEGY

Revising the HR policies and procedures can be an urgent task.

Alien Domain Merger. Neutralizing cross-cultures is most critical here, for the industries are totally different.

K: KNOWLEDGE MANAGEMENT

Knowledge management is a key issue because in many firms processes are people-driven, so there is little or no documentation of them. This makes the task of knowledge management all the more critical. Merger managers must map the processes of both organizations in order to identify opportunities for synergy, thereby realizing the objective of the merger.

Align Domain Merger. Knowledge management is not so critical, because the industry processes are similar to a large extent. Problems occur only if there is a generation gap in technology.

Associate Domain Merger. Because there is an upward or downward integration, the issue is critical. The basic purpose of such a merger is to bring synergy; hence, knowledge management plays a very key role.

Affiliated Domain Merger. The situation is highly critical because to bring about convergence or synergy, you must understand and map the resources.

Alien Domain Merger. Resource and people mapping becomes very critical as processes in the two companies are likely to vary greatly.

H: HANDLING ANXIETY

Mergers cause anxiety. Anxiety can be generic, due to the uncertainty of changes in work processes. Or it can be more specific, due to job insecurity.

Align Domain Merger. Because the chances of work duplication are very high in this type of merger, anxiety is also very high. Therefore, it is critical to deal with this issue as a priority.

Associate Domain Merger. The anxiety levels are

low because the employees' skill sets are different.

Affiliated Domain Merger. The anxiety level is critical because few employees will understand the business process synergies. You can manage this anxiety through proper communication.

Alien Domain Merger. Here anxiety levels rise and fall, not because of job insecurity, but because of uncertainty about what's happening and why.

U: UPGRADING SKILL SETS

After a merger, plans to upgrade skill sets are very important because people with the same title may have vastly different skills. Such differences may cause a lot of confusion and affect motivation.

Align Domain Merger. The issue is very critical because people in the same industry must have the same skill levels in order to avoid confusion.

Associate Domain Merger. The issue is not very critical because the nature of the skills will vary. The issue may become critical in the long term, however.

Affiliated Domain Merger. Upgrading skills is an issue for the few people who would have to manage both organizations in order to bring about control or synergy.

Alien Domain Merger. Upgrading skills is an issue only in the long term.

R: RELOCATION PLAN

You can minimize the good-byes with a sound, scientific relocation plan. A good plan helps you to identify the people you must let go and to draft an exit policy that makes their immediate future secure. Relocation plans should address the needs of people relocating internally (job redeployment) as well as externally (seeking opportunities for the former employee with a sister company or providing good references, job contacts, or use of company resources while he or she is job-hunting).

Align Domain Merger. Because the industry is similar, the chances of job duplication are very high: hence, the relocation plan becomes very critical and highly sensitive.

Associate Domain Merger. Here the issue is not

You can minimize the good-byes with a sound, scientific relocation plan.

critical as the merger would affect so few people.

Affiliated Domain Merger. The chances that the two firms would have similar processes are low, so relocation is not a critical issue.

Alien Domain Merger. If management feels there is excess manpower during the merger, then relocation would be a critical issue; otherwise, it would not be critical, because the competencies of the two firms differ.

I: IDEAL COMPENSATION MANAGEMENT

Compensation structuring is one of the most critical issues, and its mapping becomes very difficult in any merger because each company has its own set of compensation rules. Drawing up a common plan is a very critical and sensitive matter.

Align Domain Merger. Because the industry is the same, any disturbances in the compensation structure will invite lot of discomfort and anger. Drawing a mapping plan is very critical.

Associate Domain Merger. Here the issue is not highly critical. Because the competencies complement each other, the compensation can vary.

Affiliated Domain Merger. The issue generally becomes critical in the long term.

Alien Domain Merger. If the industry pay scales of the two companies vary greatly, this could be a critical issue.

Executives try to manage mergers in a way that minimizes the chaos. Sometimes, that means minimizing chaos into mere confusion. The PANKHURI model not only helps to control the chaos and confusion, but it also establishes comfort for all employees and puts management in command. ●

